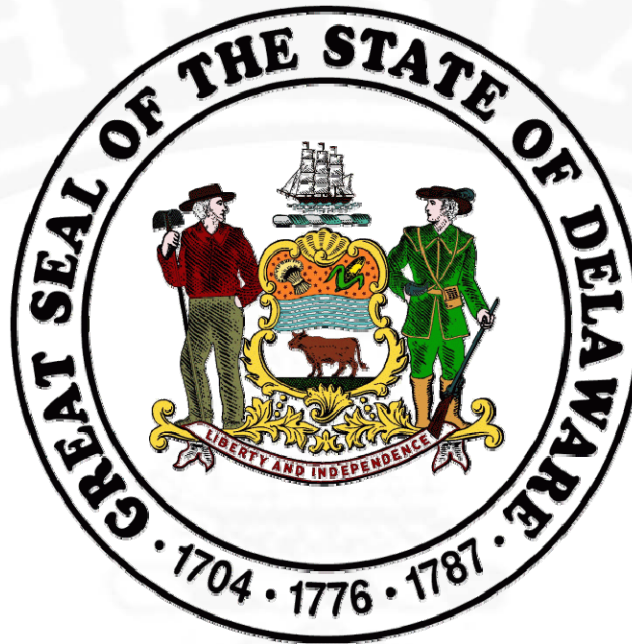


State of Delaware

Office of the Governor



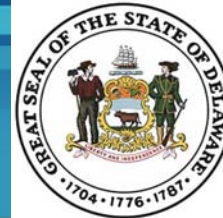
Solutions for the Budget Crisis

March 2009

Agenda



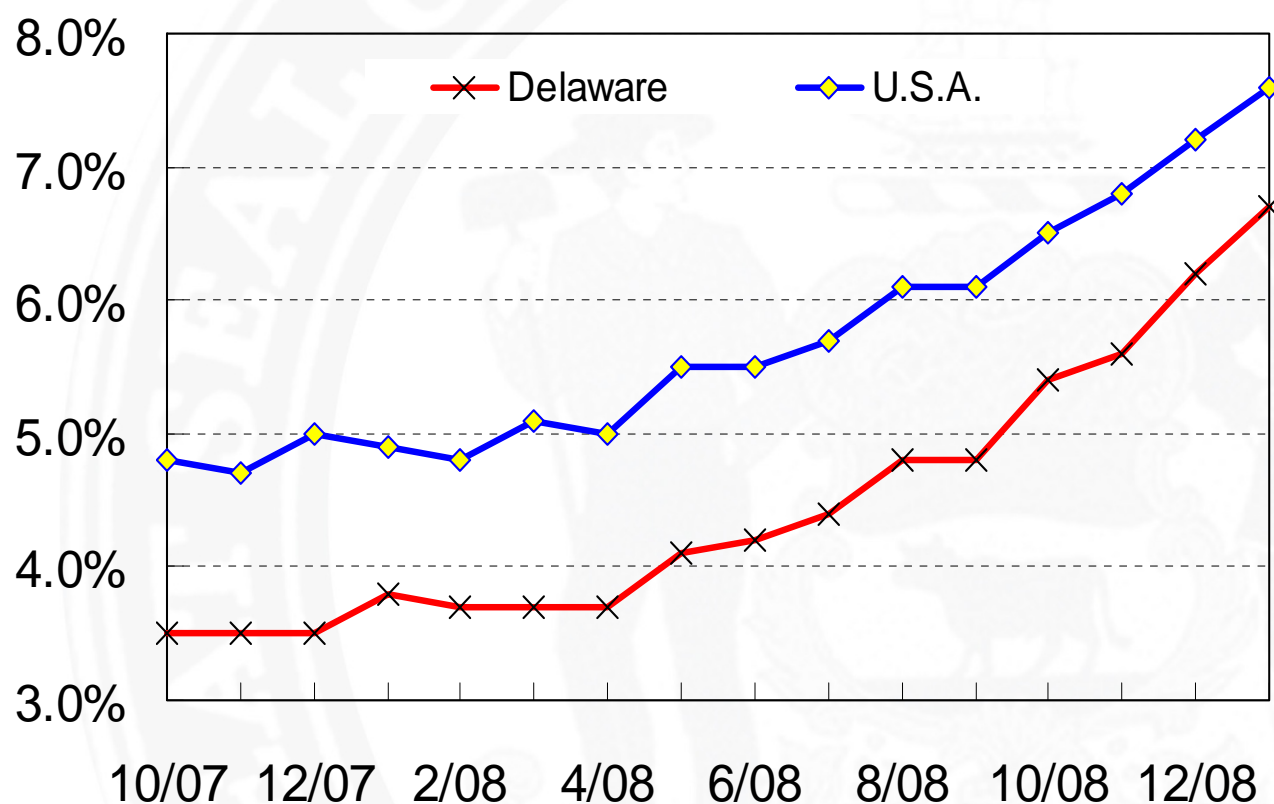
- States under the pressure of the economic crisis are taking drastic actions
- Delaware too must take strong action to address its budget short-fall of ~\$750 MM
- Our principles will drive our approach to meeting this challenge
- Both spending cuts and new revenues are needed to close the gap
- There are no easy answers, this will require compassion, fiscal responsibility and shared sacrifice
- We will move forward to a better future



Our Exposure to the National Economic Crisis

Rising unemployment

Seasonally adjusted unemployment rate



Declining revenue

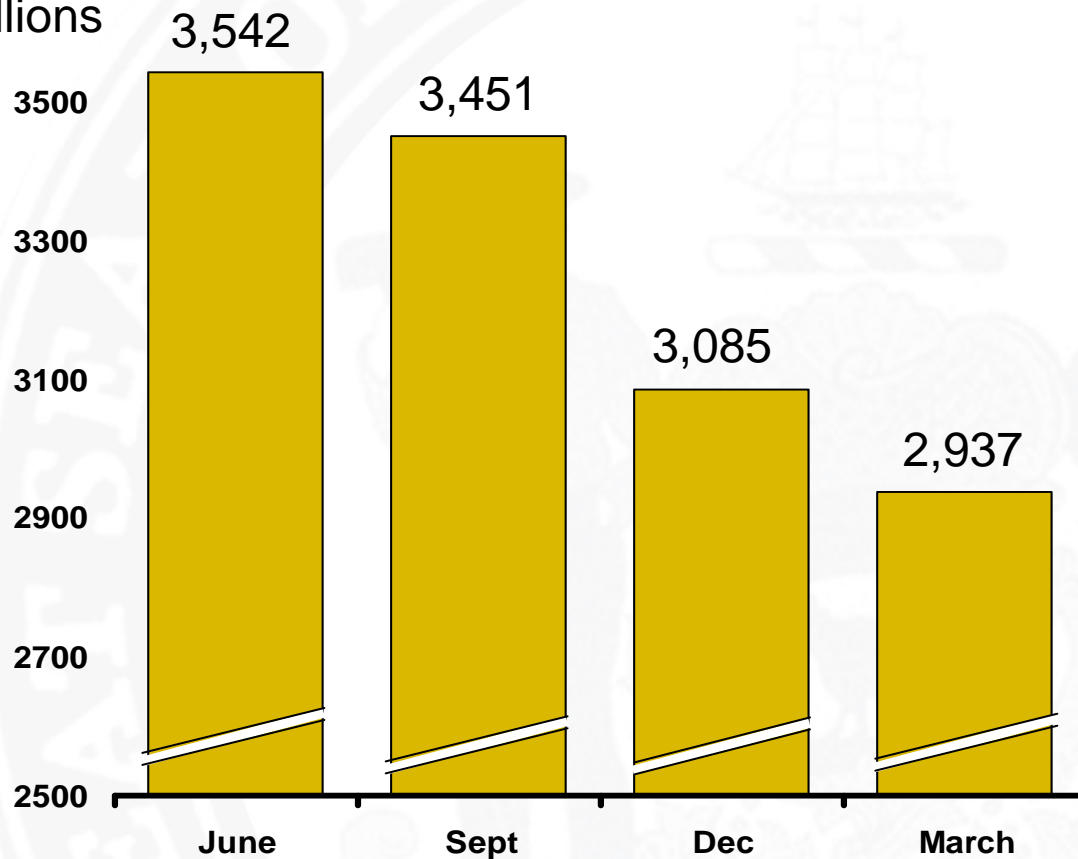
- Personal and corporate income taxes
- Dividends and interest
- Real estate transfer taxes
- Corporate franchise taxes
- Gross receipts tax
- Bank franchise tax



Declining Revenues Present Historic Challenge

Projected revenues

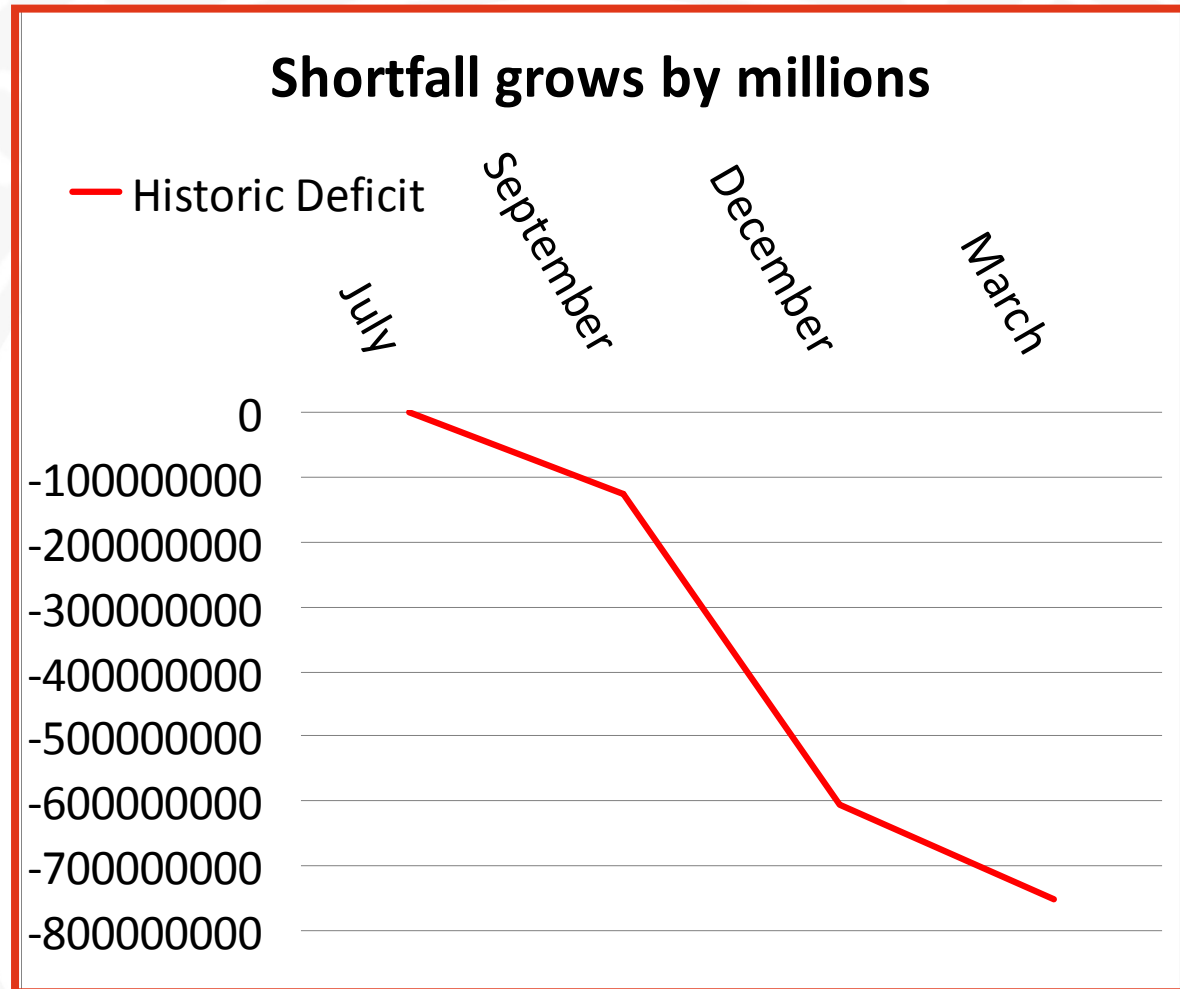
Millions



In nine months time, projected revenue for FY 2010 has declined significantly

- Decline of \$604 MM for 2010

Historic Decline Continues



Other States Propose Severe Solutions



MD – Eliminate more than 1,000 positions including 700 layoffs

VA – Eliminate 1,500 jobs

CA – Eliminate supervision for offenders not convicted of violent or sex-related crimes, reduce the probation population by about 70,000. Grant early release to more inmates

KY – Early release of 2,000 inmates

SC – Cut treatment for low-income women under 40 with breast and cervical cancer and stopped nutritional supplements for people with kidney failure

AL – Ended homemakers services for 1,200 vulnerable disabled and elderly adults

Delaware's Decisions Guided by Core Principles



Fiscal responsibility. Reductions must be real, sustainable and position us for economic growth. We must try to avoid irresponsible cuts that generate short-term savings at the expense of long term prosperity. We will not make commitments based on revenues that are unlikely to be sustained. We will not build long-term plans on short-term revenues.

Compassion – We must keep government's core commitments. I believe we must ensure the health and safety of our families. Foster the growth of our economy and protect the quality of our air and water. Give every child an opportunity to succeed. Assist our senior citizens when needed and protect the rights of all of our citizens at all times. This budget keeps those promises

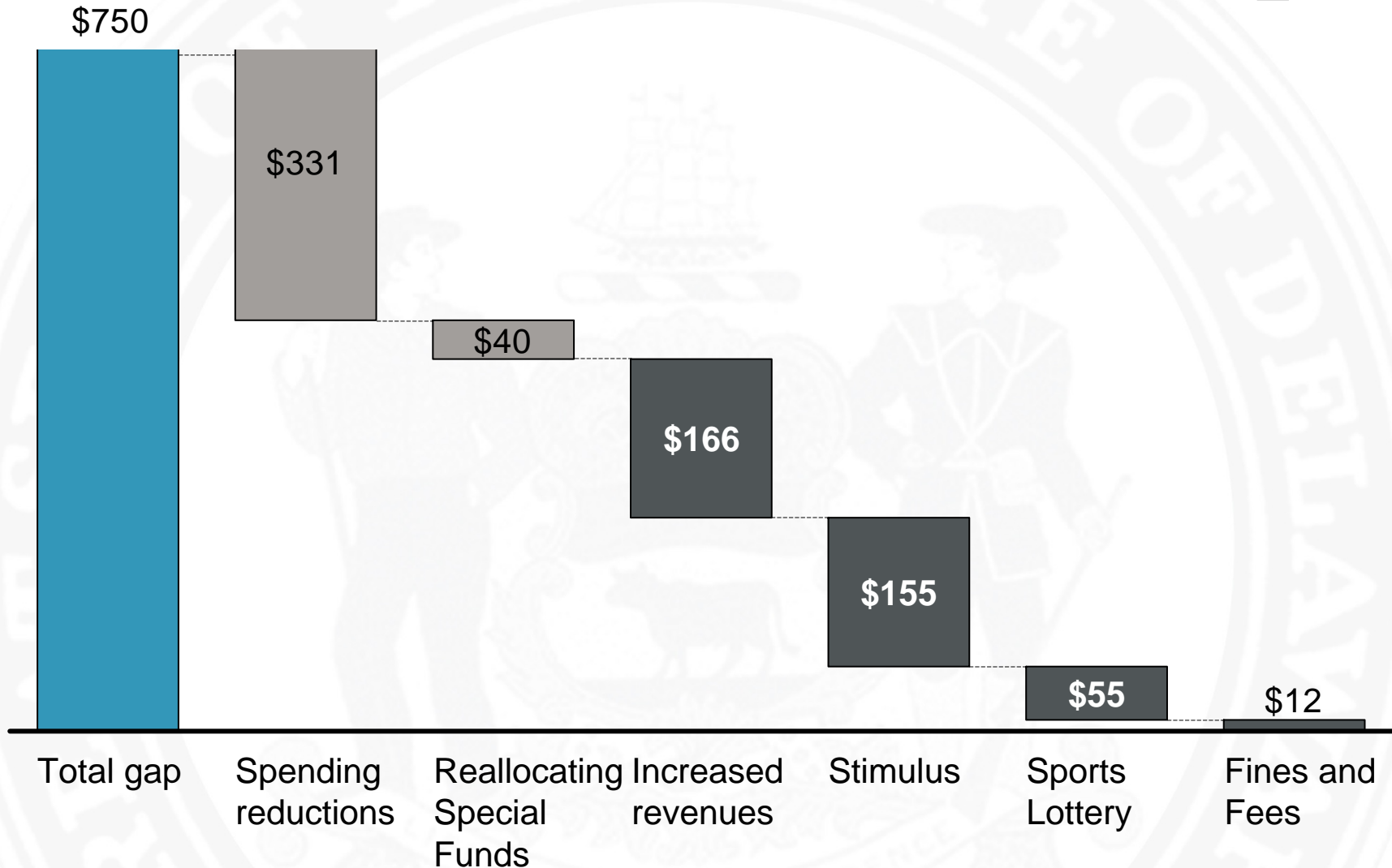
Shared sacrifice. No group will bear a disproportionate burden from this challenge alone.

Closing the \$750M gap will require a combination of spending cuts and new revenue



Millions

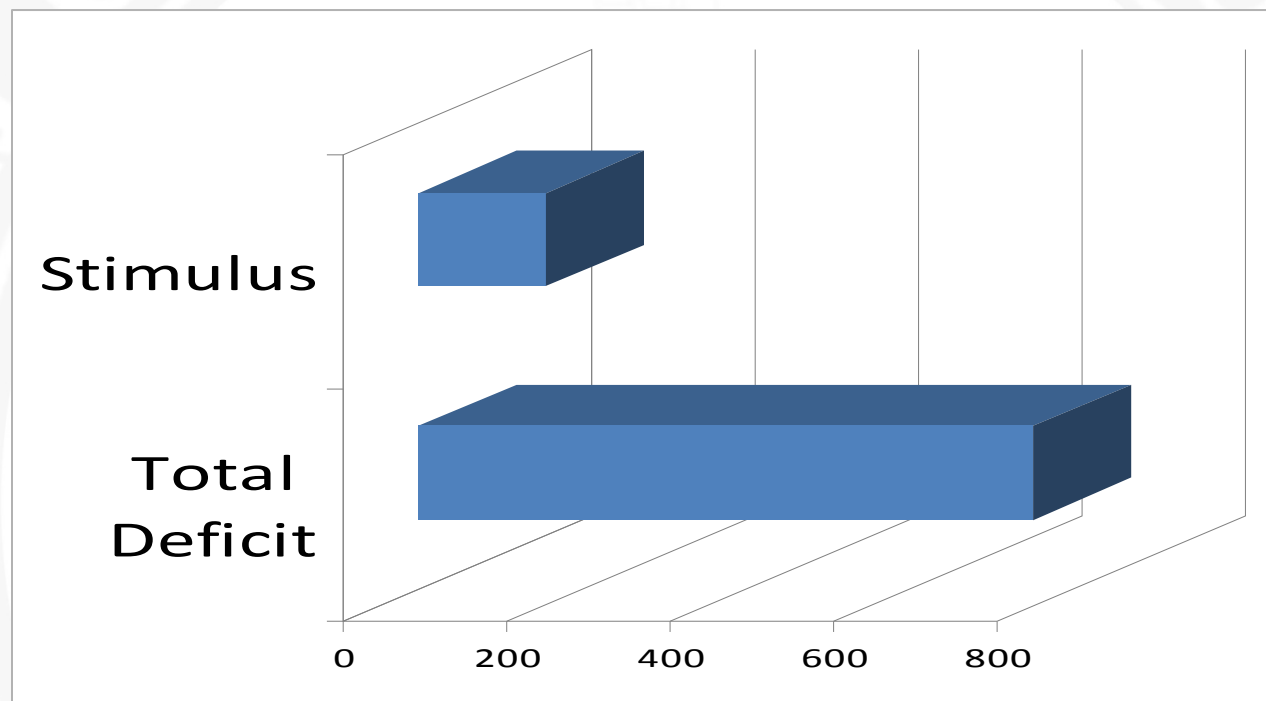
■ Spending cut
■ New revenues



Stimulus Dollars Have Limited Effect on Shortfall



Available Stimulus Help to Meet Historic Budget Shortfall





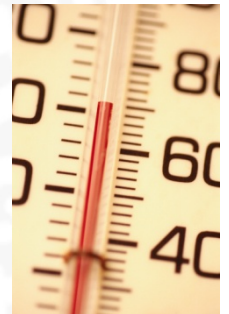
Cuts: Eliminate Waste and Inefficiencies

Common-sense Solutions



- Slashed size of state's fleet by 20%

- Turned thermostats down and launched energy efficiencies



- Eliminated all non-essential travel

- Cut consulting costs



Cuts: Savings Found from Performance Review



- Coordinate statewide purchasing
- Leverage state buying power through aggregating spending and creating efficiencies in contracting
- Eliminate mailing of paycheck stubs and provide payroll information online
- Encourage recycling at state facilities
- Identify opportunities to consolidate IT responsibilities
- Increase use of conference calling, net meetings and video conferencing
- Reduce funding for energy by reducing consumption through best practices and energy efficiency measures
- Eliminate unnecessary fleet vehicles
- Consolidate phone systems infrastructure
- Improve permitting processes within and across agencies

Cuts: Reallocate Special Funds



To address those areas of highest priority, we will propose cutting \$38 million in dedicated revenue earmarked for farmland preservation, open space preservation and DeIDOT.

These funds would be reallocated to the general fund to help support direct services such as education and public safety.

Cuts: Programs, Grants and Services



Realized \$188M in Savings



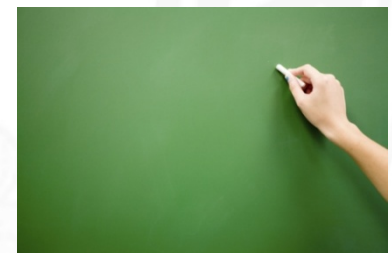
- Ground state police aircraft saving \$560.0



- Bring Health Care Commission into Division of Public Health



- Eliminate state funding for Museum of Small Town Life and Archaeology Museum saving \$254.3



- Reduce teacher in-service days



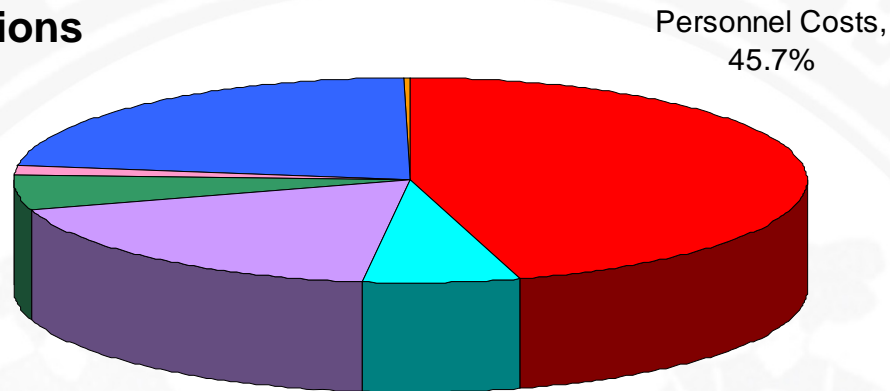
Cuts: Programs, Grants and Services, cont.

• Reduce vacant positions and casual/seasonal funding	\$3,500.0
• Reduce contractors, consultants and employment services by 10%	\$7,504.9
• Means test Senior Property Tax program	\$9,000.0
• Eliminate First Quality Fund	\$150.0
• Eliminate Saturday/Holiday hours for Delaware Public Archives	\$198.4
• Eliminate reimbursement for long term care workers	\$330.0
• Convert DDDS clients to Home and Community Based Services Residential Waiver	\$950.0
• Eliminate summer hours for School Based Health Centers	\$149.0
• Reduce institutional setting costs due to opening of new group home for DPC clients	\$423.0
• Utilize Ryan White Grant to fund HIV clinic in Smyrna	\$128.2
• Eliminate certification for DOC Drug/Alcohol Treatment	\$1,000.0
• Eliminate state support for Phragmites control/use federal funds	\$35.7
• Eliminate Delaware Center for Educational Technology	\$957.5
• Reduce cost share of energy costs in schools	\$2,180.3

Cuts: Employee Costs

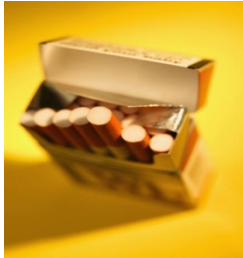


Limited Options



- Institute an 8% across the board cut in the salaries of all state employees, which will save \$91.7 M.
- Trade three fixed holidays per year for state employees with three floating ones, which will allow us to cut back on overtime costs and save an additional \$1M.
- For the time being, freeze career ladder adjustments for an additional \$1.2M.
- This would save the equivalent of 1,500 layoffs.

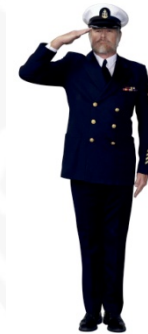
New Revenue



Cigarette Tax - \$0.45 per
pack increase
2010 impact: \$16.0 M
2011 impact: \$21.0 M



Operating Budget for
Veterans Home



Alcohol Tax – 50% increase
2010 impact: \$3.5 M
2011 impact: \$6.0 M



Child Health Insurance
Program



Personal income tax
increase – Top rate of
6.95%
2010 impact: \$30.0 M
2011 impact: \$78.0 M



Keeping 1,134 inmates
incarcerated



New Revenue



Corporate Franchise Tax
increase

2010 impact: \$97.4 M

2011 impact: \$73.2 M

== Keeping our streets safe by
funding police operations



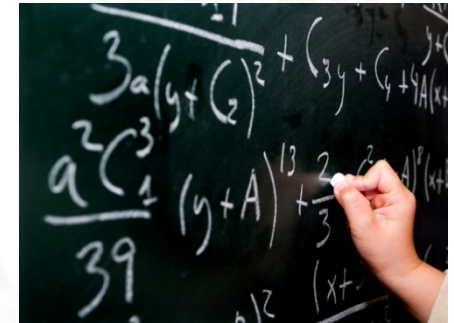
Gross Receipts Tax
increase

2010 impact: \$ 7.0 M

2011 impact: \$19.0 M

==

State funding for
approximately 400
teachers



Public Utility Tax increase

2010 impact: \$7.0 M

2011 impact: \$9.0 M

==

Preserving Delaware's
Water Quality



New Revenue: Sports Lottery



- Reauthorize Sports Lottery
- Allow Sports Lottery at casinos and other venues
- Give Delawareans a fairer share of casino revenue
- Add up to three new casinos

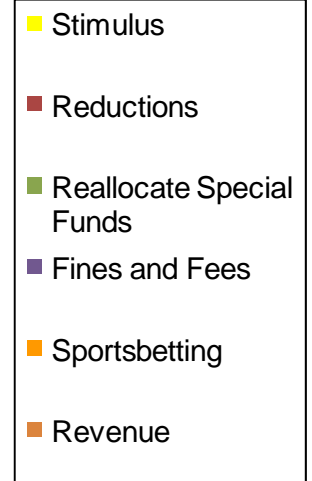
Critical Solutions, not Easy Answers



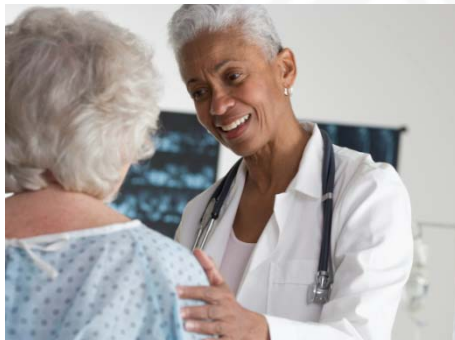
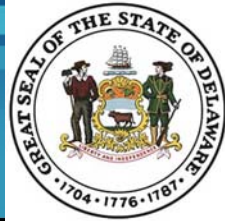
Principles

- Fiscal responsibility.
- Compassion: Keep government's core commitments.
- Shared sacrifice.

Budget Solutions



Compassion: Keeping Core Services



Services to the most vulnerable



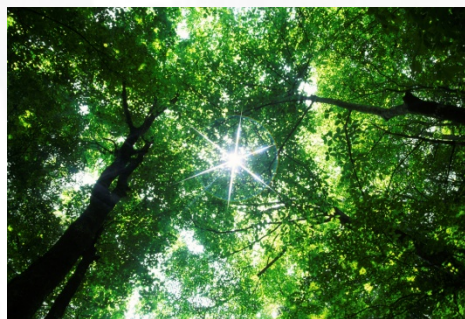
Education



Medicaid



Transportation



Environmental protection



Public safety

The Road Ahead



- Challenge prevailing wisdom
- Create new solutions
- Serve neighbors and community
- Commit to improving our future

We must move together with purpose because our best days are still before us. We will create opportunities from obstacles and emerge stronger for having been tested.